The PNC Economic Outlook

U.S. Economy Stuck in Low Gear

For the 2008 DOD/DLA Titanium Symposium

Robert A. Dye
Senior Economist

August 5, 2008

PNC

PNC's U.S. Economic Outlook

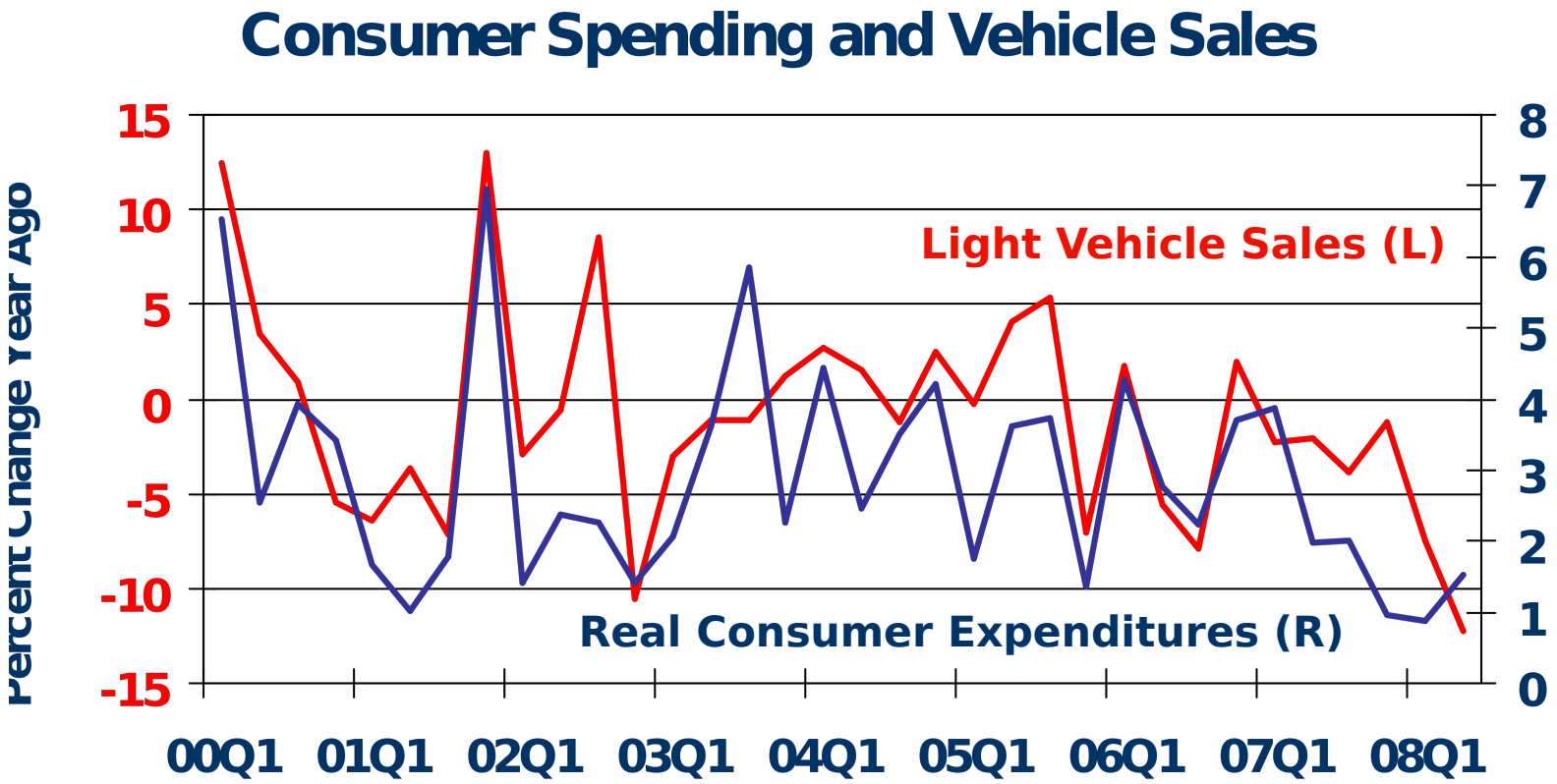
- It may not look like a textbook recession, but it sure feels like one
- Tame core inflation but food and energy prices lift headline CPI
- Interest rates bottomed out and set to rise
- Net job losses and rising unemployment through early 2009
- Weak economic conditions linger until 2009H2

Revised Data Shows a Weaker Economy

Sources: BEA

PNC

Consumers Avoiding Car Dealers in Droves

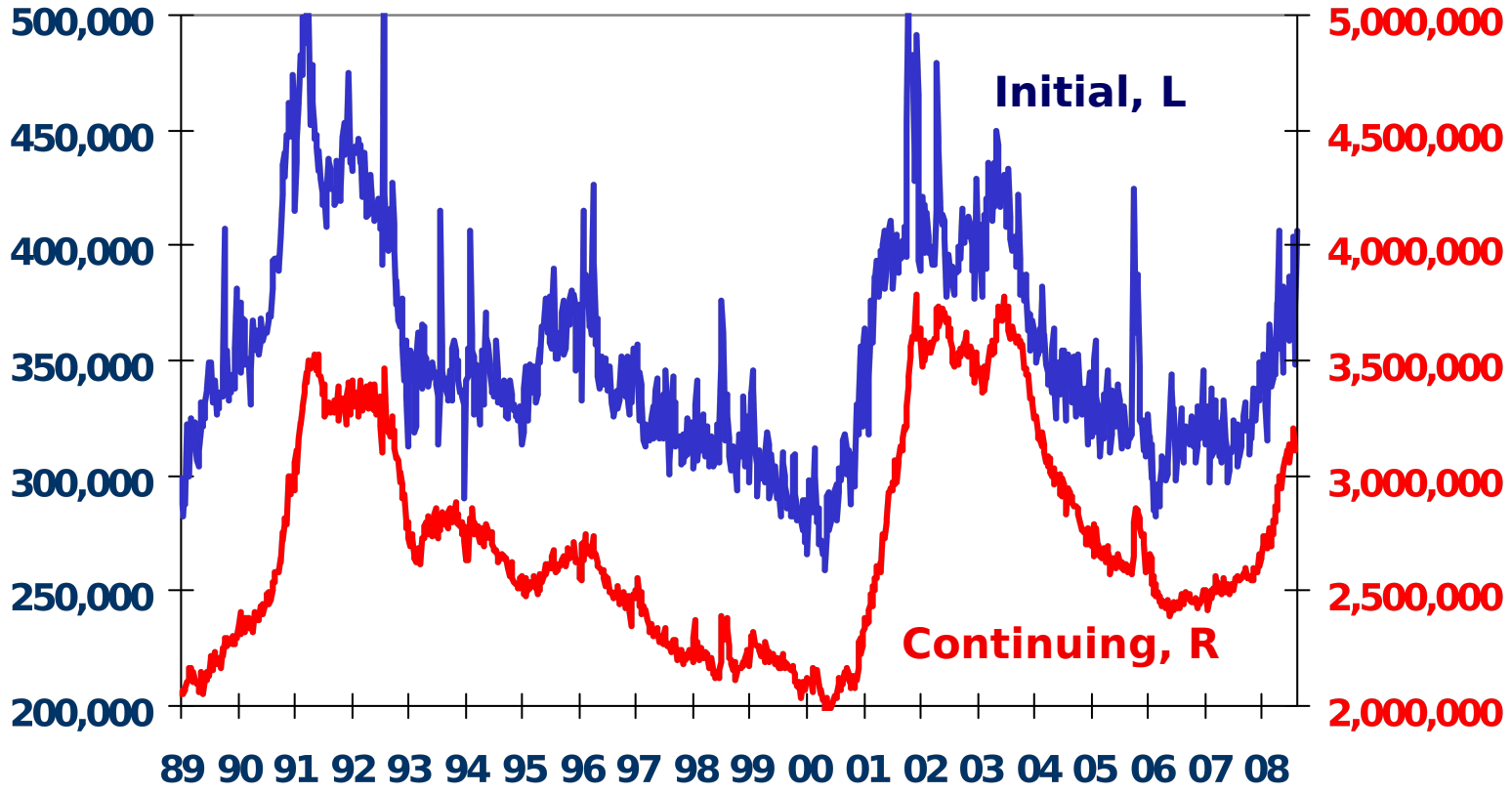


Source: BEA

Job Losses Every Month of 2008

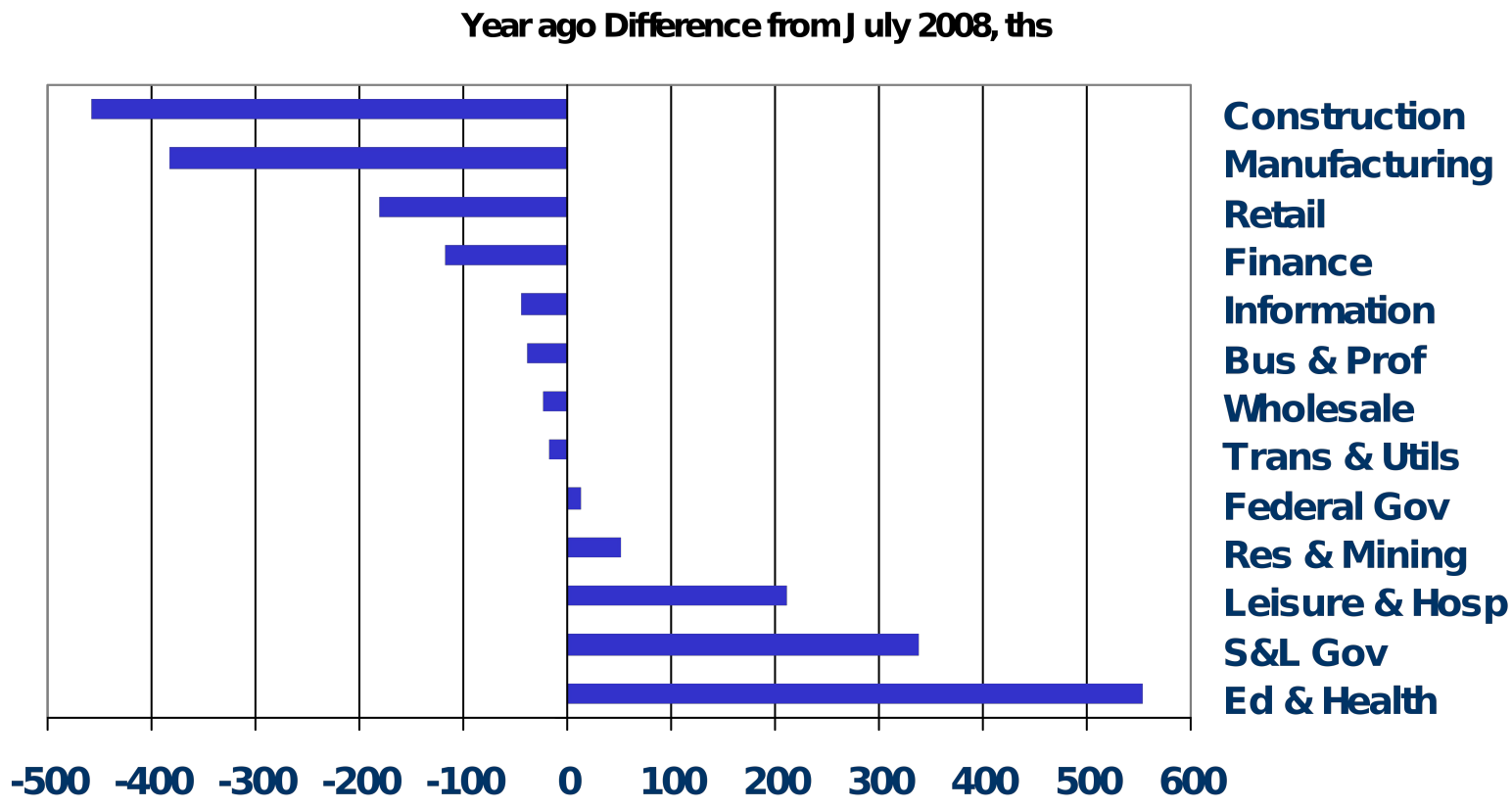
Source: BLS

Unemployment Claims Approaching Recessionary Levels



Source: BLS

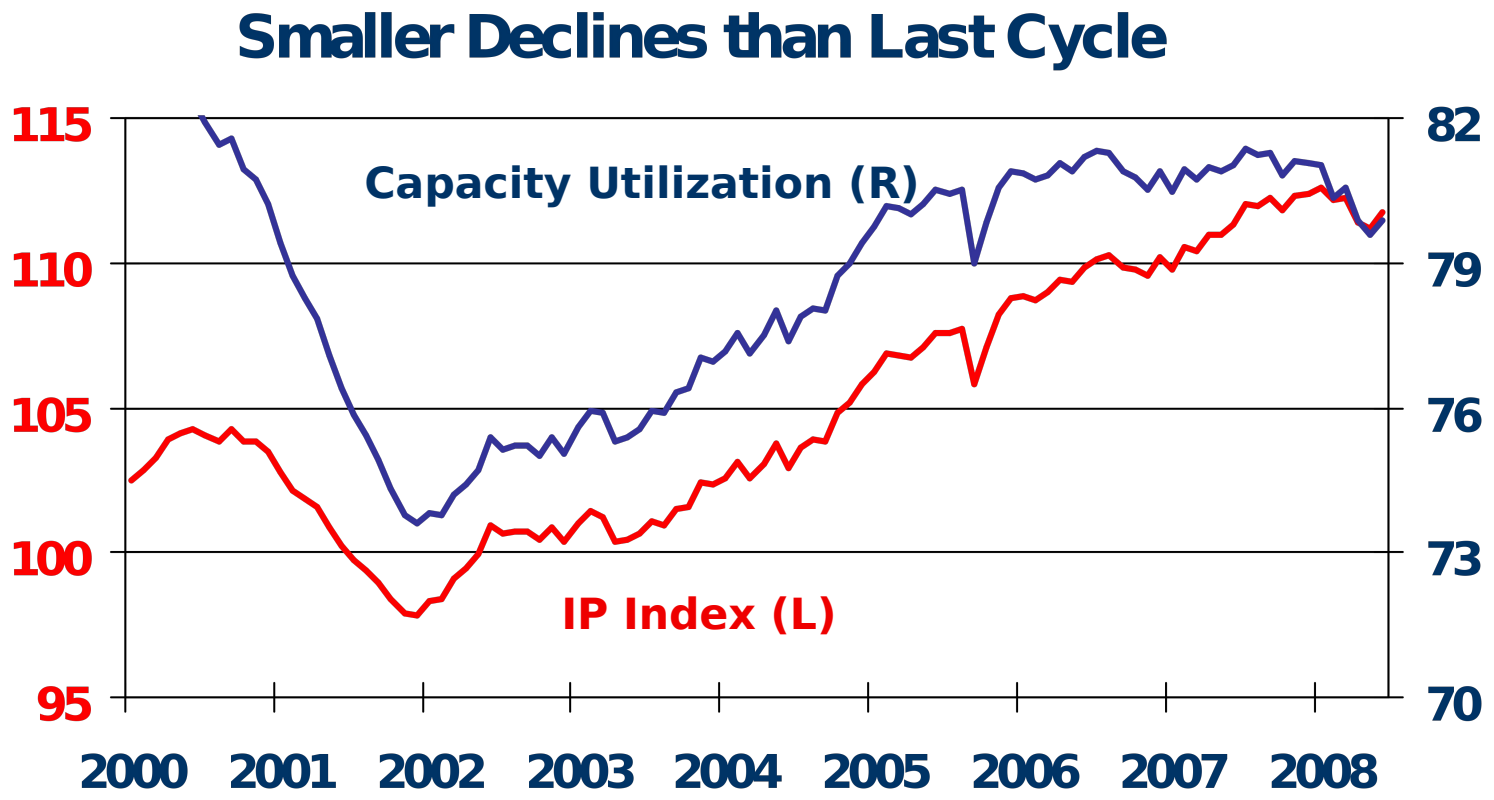
Service Sector Still Adding Jobs



Source: BLS

PNC

Industrial Production Is Stalling

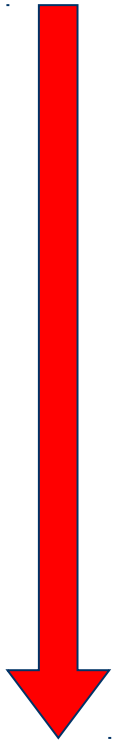


Source: Federal Reserve

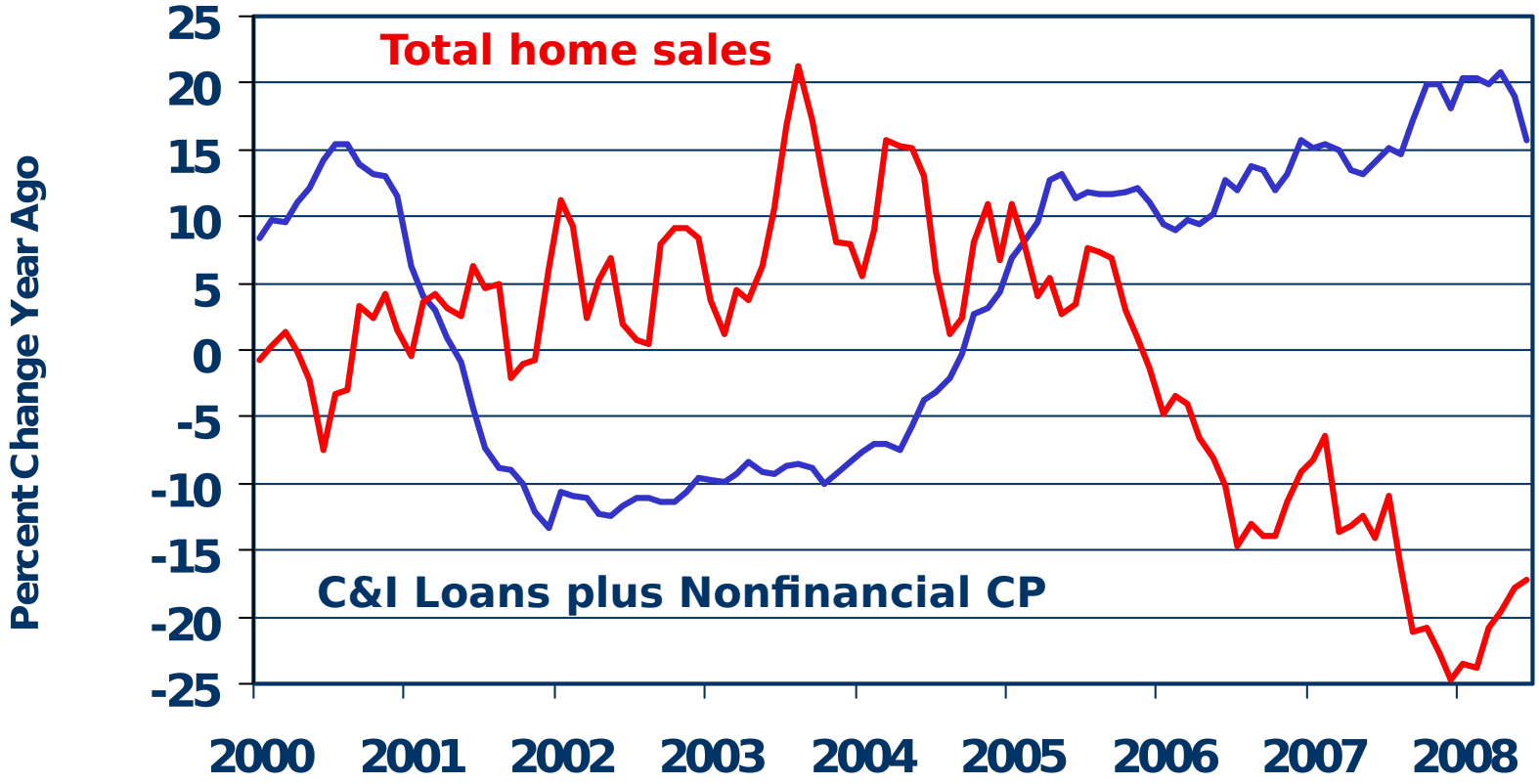
PNC

Drags Will Linger Into 2009

- Ongoing credit restraint due to subprime crises
- Housing market remains in disarray
- Energy prices remain a significant weight
- S&L government spending will be squeezed

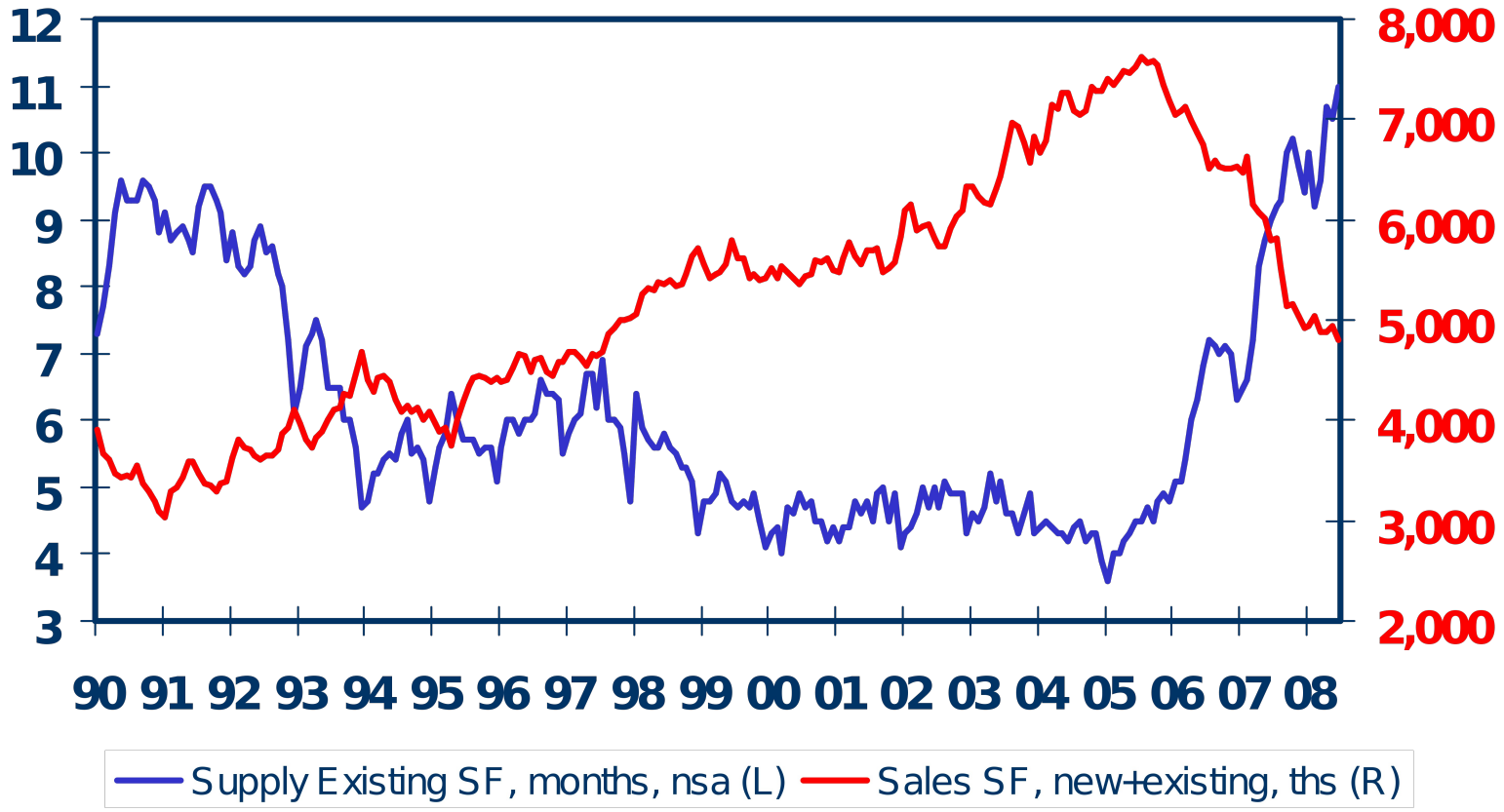


Ongoing Credit Restraint



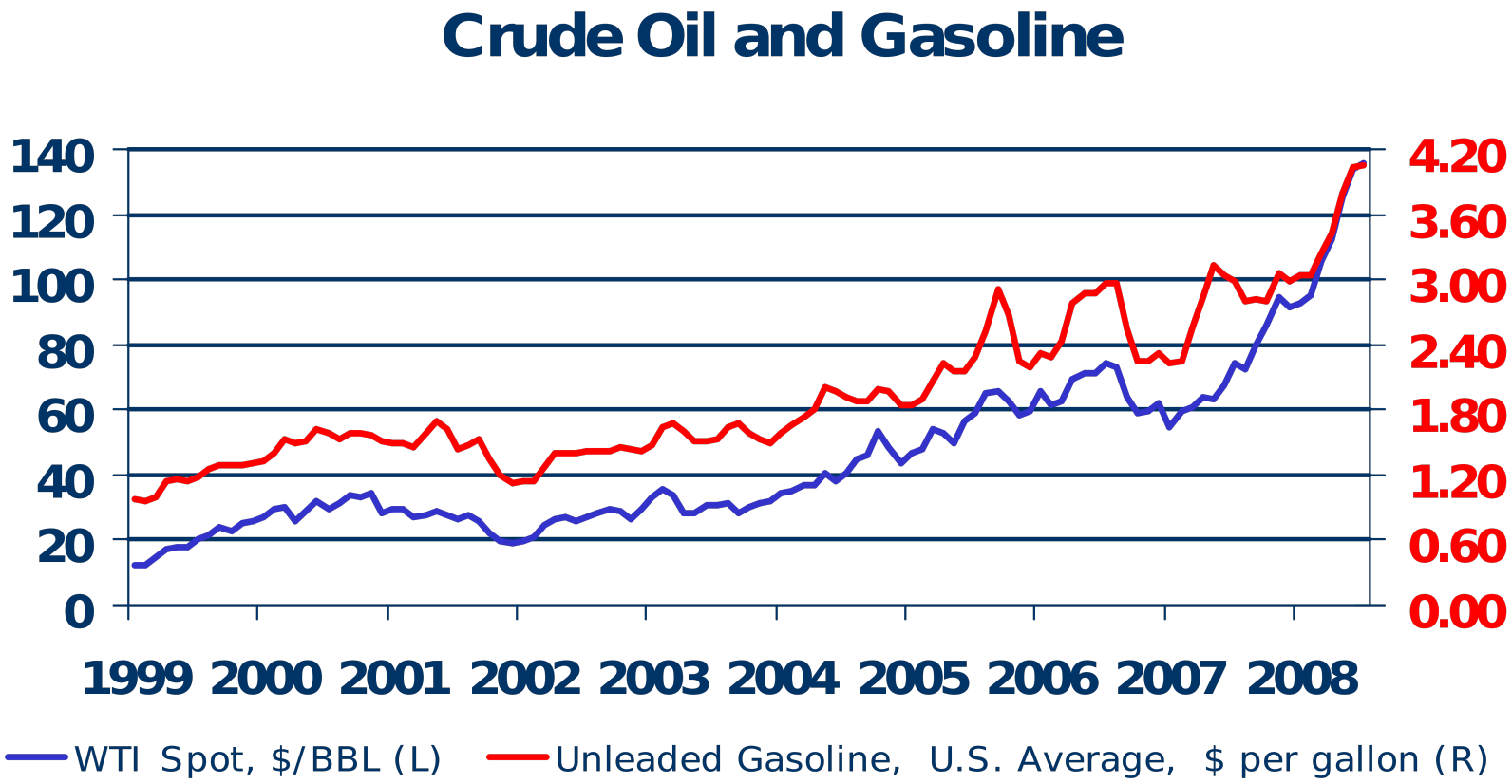
Source: Federal Reserve

Massive Overhang in Housing Supply



Sources: Census, NAR

Energy Prices Remain a Primary Downside Risk to Growth and an Upside Risk to Inflation

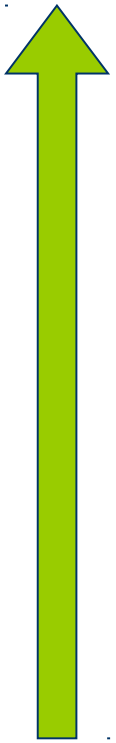


Source: U.S. Department of Energy

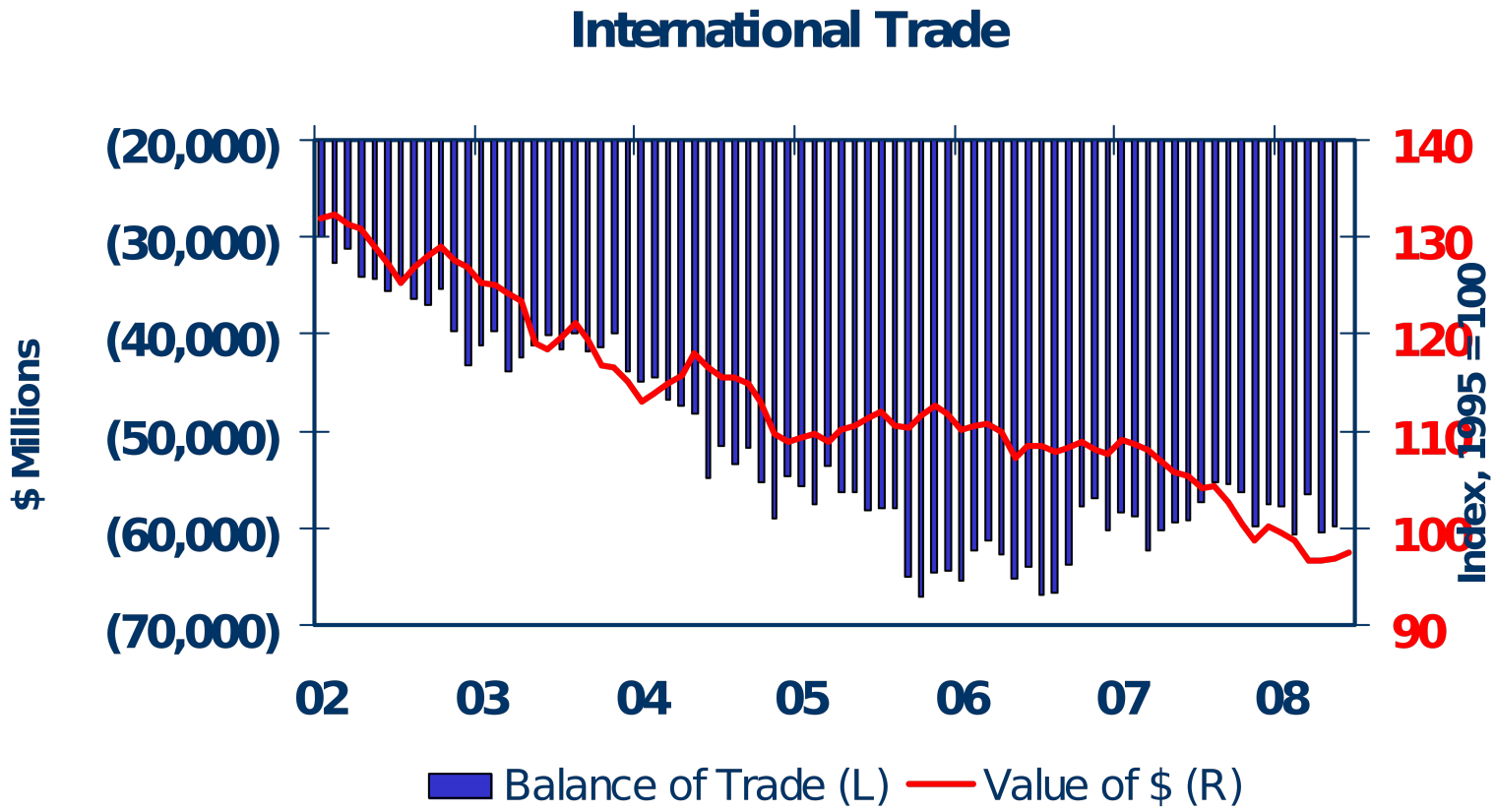
PNC

Factors Supporting Growth

- Weak dollar/improving balance of trade
- Fed funds rate at 2%
- Stress in financial markets easing
- Less drag from housing
- Inflation remains under control, core PCE 2.1%
- Support from non-financial services (waning)
- Fiscal stimulus package? FSP II?

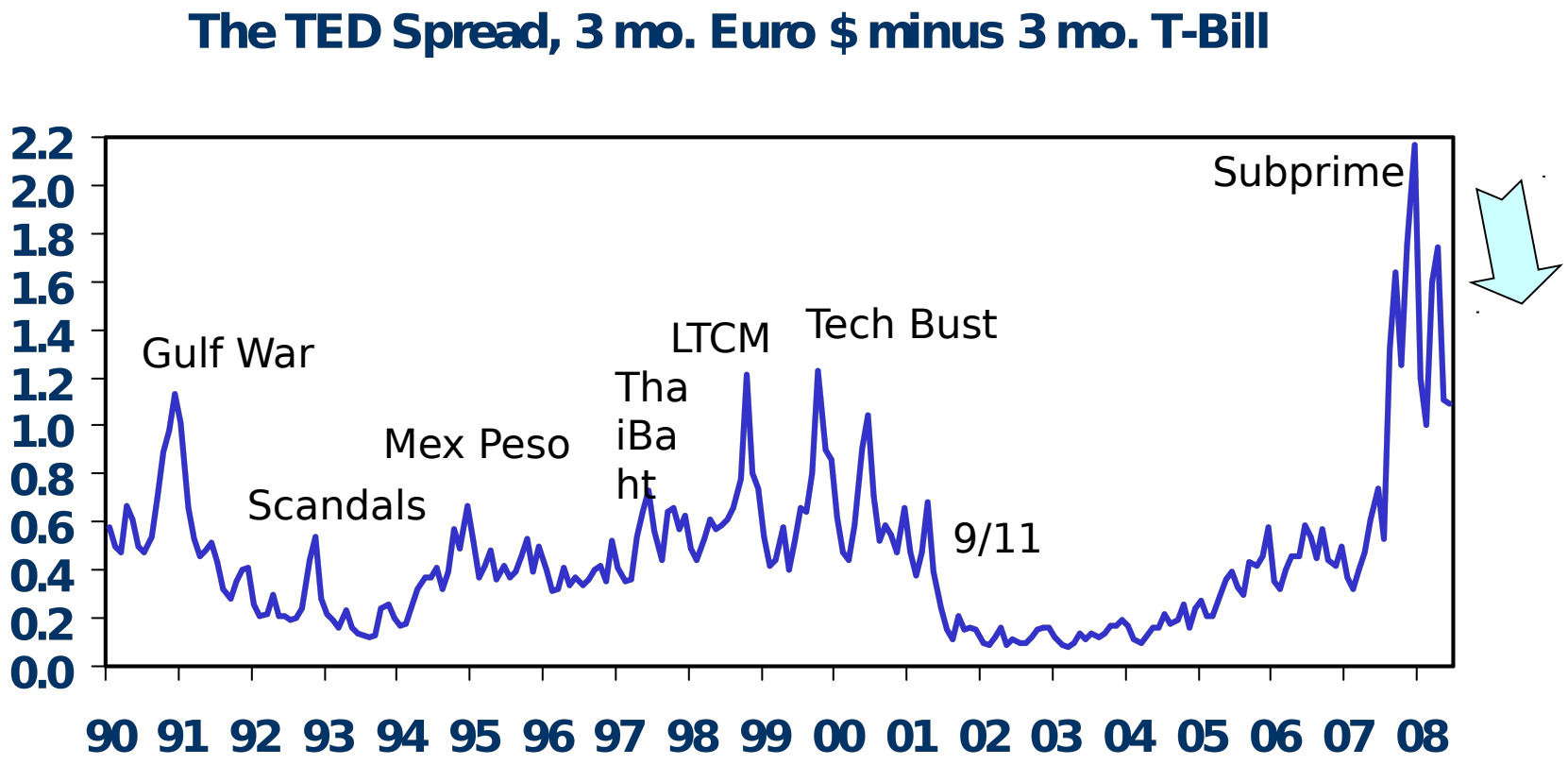


Declining Dollar and International Demand Support Trade Improvements



Source: Census, Federal Reserve

The TED Spread Shows Hypersensitivity to Risk



Source: Federal Reserve

PNC

Where Do We Go From Here?

Forecast Risks

Downside Risks

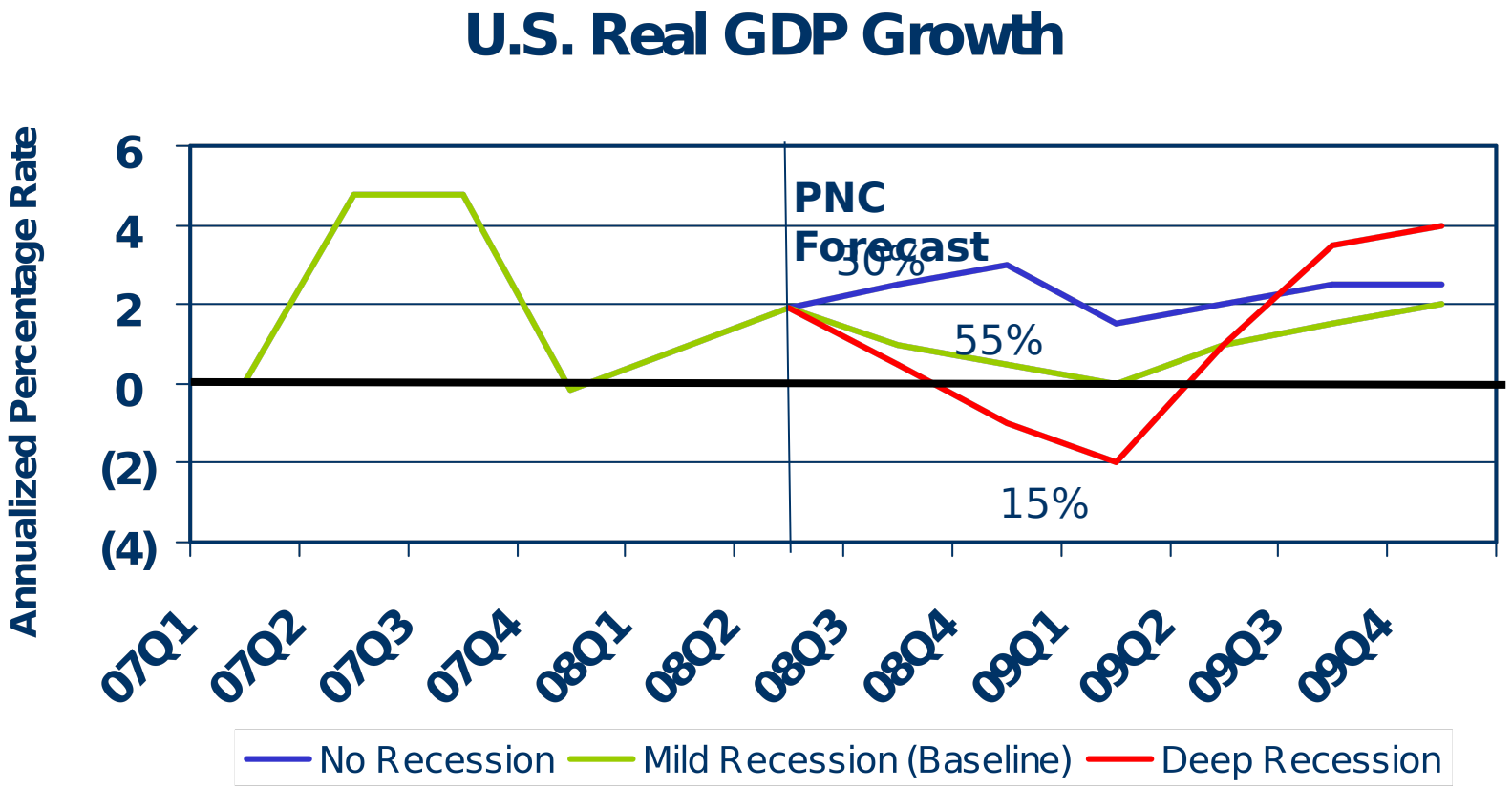
- Financial market turmoil extends into 2009
- Housing meltdown deepens
- Global GDP growth winds down
- Massive job cuts
- Consumer spending languishes
- Value of dollar keeps declining
- Energy prices elevate
- Core inflation heats up

Upside Surprises

- Bulls roar back
- The beginning of the end?
- BRICs maintain pace, Europe hangs on
- Companies already running lean
- Fiscal stimulus jolts spending **NO**
- Demand eases/supply surges, froth pops **YES**
- Fed drops rates again

PNC

Three Scenarios: Unequal Probabilities



Sources: BEA, PNC forecast

The PNC Financial Services Group, Inc.